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**AUD029                      The relationship between executive directors' gender and remuneration: A preliminary study**

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**ABSTRACT:**

The South African transformation has historically been about race and the need for gender equality. Women are still scarce in top leadership positions in wealthy societies in spite of gender equity in education. This paper presents preliminary findings on differences between the remuneration of male and female executive directors of a sample of South African listed companies. The results suggest that even well after the establishment of democracy in 1994, gender-based differences are noted in remuneration policies of large listed companies. This study indicates that the gender pay gap in executive directors does exist. Furthermore, the results demonstrate the continuing relevance of Hofstede's cultural theories for explaining observed practices in a corporate context. With South Africa characterized as a masculine society, it comes as no surprise that male and female directors are remunerated differently. The study concludes with areas of further research.

**Key words**

Gender equality; pay gap; King IV; remuneration policies

## INTRODUCTION

South African transformation has historically been about race and the need for gender equality. After South Africa's first non-racial elections in 1994, a transitional government adopted the call to eliminate discrimination against gender (Seidman, 2001). Nevertheless, despite decades of anti-discriminatory legislation, the gender pay gap still exists and it is not declining (Kulich, Ryan, Haslam, and Renneboog, 2011).

The gender pay gap is suggested to be a result of productivity-related attributes, for example interrupted labour-force participation and educational qualifications (Elkinawy and Stater, 2011). In most cases, the unexplained component of the wage gap cannot be explained by human capital variables, i.e. productivity-related attributes, which is potentially due to discrimination (Joshi, Makepeace and Dolton, 2007).

Women are still scarce in top leadership positions in wealthy societies in spite of gender equity in education (Acker, 2009). PwC (2017) indicated that, since 2015, there has been a small increase of 1.3% in the global female representation on boards of directors, with 9% of global CEO's being female. PwC (2017) reports that countries have started a process in which laws and regulations would enforce female participation in the management of companies, giving focus beyond annual reports. These laws are passed for a variety of reasons, one being that women add value to the boardroom (Dunn, 2012). There is also great public interest in the level of executive pay, as public concern about executive pay is about fairness (Gerhart, Rynes and Fulmer, 2009). Research suggests that female executive director's presence serves the companies interest to build links to its environment and bringing strategic input to the boards they serve.

As the average age of female directors is usually younger than her male counterpart, the board benefits from the infusion of new ideas (Van der Walt & Ingley, 2003). Dunn (2012) states that surveys have indicated that not only is there no shortage of talented women who can be appointed on executive positions, female executives are often more talented and more qualified than their male counterparts (Dunn, 2012). Yet, despite the benefits of having female executive directors, women remain under-represented on large boards (Dunn, 2012). PwC (2017) confirms this by stating that only 9% of CEO's are women and only 6% of women are non-executive directors. While women have had great strides in terms of gender equality with legislation, unexplained differences in pay remain a widespread concern (Elkinawy and Stater, 2011). On average, according to Allen and Sanders (2002) and PwC (2017) women's earnings are materially lower than their male counterparts.

Bertrand and Hallock (2001) have indicated that, in the past, there have been two barriers in conducting an investigation on gender compensation among top executives. Firstly, the required data did not exist. Secondly, it has been widely believed that too few females were in these top positions to carry out a formal analysis of their remuneration. While the debate of whether executives are overpaid has become an annual occurrence, there has been little attention on female executives who get paid significantly lower than their male counterparty (Shin, 2012). In addition, what limited research has been carried out on remuneration differences between male and female directors tends to ignore the African context. More specifically, to date, there has been insufficient research on whether or not male executive directors of listed companies are paid significantly more than their female counterparts in South Africa.

In this context, this paper presents preliminary findings on differences between the remuneration of male and female executive directors of a sample of South African listed companies. The study concentrates on base pay and variable bonuses but excludes share options and other types of remuneration. Examining variations in the type of remuneration used to compensate male and female directors is deferred for future research. It should also be noted that the research concentrates on the period 2009 to 2011. This is because this working paper seeks to provide an initial reference for exploring changes in remuneration practises. As explained in more detail below, the study focuses on the period before companies have adopted and applied the new integrated reporting formats. This allows the research to establish a base for future researchers wishing to examine how integrated reporting and, more recently, King IV has impacted local remuneration policies and practises.

The remainder of this paper is structured as followed: a literature review provides context and deals with some of the prior research on corporate governance, remuneration reporting and gender inequality. This is used to provide a basis for the research questions tested by this paper. The method is then discussed followed by the results and analysis of findings. The conclusion section summarises the results of this preliminary study and presents areas for future research.

## **LITERATURE REVIEW**

### ***Corporate governance research***

There is a large body of research which dealing with developments in South African corporate governance. Rossouw, van der Watt & Malan (2002) and Maroun, Coldwell & Selgal (2014), for example, provide a theoretical framework for changes in local corporate governance. They examine the relevance of South Africa's political past, changing economic climate and growing awareness of the importance of environmental, social and governance (ESG) issues for the emergence of stakeholder-centric codes of corporate governance (see also Brennan and Solomon, 2008; Solomon, 2010). This has been complemented by a large body of working dealing with changes in corporate reporting trends.

Makiwane and Padia (2013), for instance, find a significant increase in the extent of ESG-related issues in companies' corporate reports following the introduction of King-III in 2009. The results are supported by those of Padia and Yasseen (2011), Raemaekers, Maroun & Padia (2016) and Segal, Segal & Maroun (2017) who find that South African companies are more inclined to report on their strategy, business risks and risk management strategies. Similarly, in an effort to signal their commitment to good corporate governance, companies deal specifically with the extent of compliance with codes of best practice such as those issued by the Global Reporting Initiative (Hindley and Buys, 2012) and International Integrated Reporting Council (Solomon and Maroun, 2012). Collectively, these findings are used to support the position that South African organisations are making good progress managing important ESG-related issues. A closer examination, however, reveals some issues.

Disclosures are often repetitive and generic (Stent and Dowler, 2015) with the result that they do not give a good indication of how recommended corporate governance practices are being internalised and applied by corporations (Brown and Dillard, 2014; de Villiers, Rinaldi

and Unerman, 2014; Higgins, Stubbs and Love, 2014). In addition, when information is reported in an annual, integrated or sustainability report, there is no guarantee that the disclosures are a genuine account of how important ESG issues are being managed rather than an exercise in impression management (Atkins, Solomon, Norton and Joseph., 2015). This may be the case when considering companies remuneration practices and, in particular, the extent to which they are committed to equitable remuneration of male and female executives.

### **Remuneration practices and corporate governance**

There is little prior research on South African companies' remuneration practices. Most studies deal with levels of remuneration disclosure and the extent to which companies include recommended disclosures from codes of best practice (see, for example, Nelson and Percy, 2008). Other research addresses the type of remuneration provided to executives and how this information is presented in corporate reports (Liu and Taylor, 2008). This includes the extent to which companies refrain from making remuneration-related disclosures on grounds that the information is sensitive or may result in loss of a competitive advantage (Nelson and Percy, 2008). There is also some research on the role of corporate governance mechanisms, such as a remuneration committee, for regulating the levels of executive remuneration (Kenneth, 2014; Institute of Directors, 2016)

A related body of work takes a slightly different position. It examines how the independence of a board of directors (which might be impacted by remuneration practices) affects, for example, corporate transparency (Ben-Amar and Zeghal, 2011), the extent and quality of ESG reporting (Rao and Tilt, 2016) and commitment to the type of assurance provided over the integrated or sustainability report (Stubbs and Higgins, 2015; Maroun, 2017).

A recent report by PwC (2016; 2017) finds that companies are being more cautious about awarding large bonuses, share options or other types of remuneration to executive directors. This in response to South Africa's social context where unemployment is very high and the gap between the income of the country's rich and poor is a serious concern (de Villiers and van Staden, 2006; Standard Bank Group, 2015). The type of remuneration being granted to executives is also changing:

Structurally, the trend towards less volatile and geared long-term incentives (share awards) remains in place 43, with share options and share appreciation rights being replaced by restricted shares, bonus shares and performance shares, which provide better alignment with shareholder interests and are more likely to avoid extreme pay-outs (PwC, 2016, p. 36)

There is also evidence of gender becoming a key consideration for boards of directors. As explained by both King-III and King-IV, a diverse board of directors which reflects South Africa's demographics and takes into account the need for black economic empowerment and gender equality is essential (IOD, 2009; IOD, 2016). As investors and other stakeholder continue to place emphasis on these social issues, in addition to financial performance (IOD, 2011; Atkins and Maroun, 2015), companies are identifying the need for an appropriately diverse board of directors as both a moral and strategic imperative (PwC, 2016).

Theoretically, the inclusion of additional female board members in traditionally male-dominated industries is easy to achieve. Women have greater access to education than ever

before and are often outperforming their male counterparts in the classroom and at university (PwC, 2016). There is also evidence to suggest that women are becoming more economically active. They are estimated to account for 80% of purchasing decisions (including consumables, financial services and long-term assets) leaving them well placed to make decisions at the board level (PwC, 2016). Nevertheless, complete gender equality has been difficult to achieve. This is largely due to the underlying social context (de Villiers and van Staden, 2006; Standard Bank Group, 2015).

Female employees are often expected to forego lucrative employment opportunities due to domestic responsibilities, which are perceived as their exclusive domain<sup>18</sup>. This leads to a disconnect between women's aspirations and what their employers offer. A survey by PwC (2016, for example, finds that opportunities for female professionals to work outside of their home countries are often less than those provided to men. Succession planning at the senior level continues to exclude female employees even though they represent a growing proportion of the work force. Perhaps most unfortunate is the assumption that women with family commitments are unable to commit to their employers completely leading to their exclusion from senior roles (PwC, 2016).

South Africa's Constitution provides for equal education and employment opportunities for men and women. As discussed above, there have also been significant corporate governance developments which have resulted in a greater focus on gender-based equality in the workplace (see IOD, 2009, 2016). Nevertheless, complete equality has been difficult to achieve. This is evaluated in more detail by consider whether or not there are differences in the level of pay between male and female directors.

### **Theoretical framework and hypothesis development**

The international literature suggests that a gender-based compensation gap does exist despite the numerous legislation that has been put in place to minimise the gap (Kulich, Trojanowski, Ryan, Haslam, Renneboog, 2010). As access to higher levels of education has improved for females, employment opportunities for females have increased. The number of females in executive positions is, however substantially lower than males and they usually occupy non-executive or non-core roles (Bertrand and Hallock, 2001). Van der Walt and Ingley (2003) suggests that women may play a larger strategic role than they previously did, because their experience is more aligned with the company's needs. This is not, however, a common finding. Recent surveys by PwC (2016; 2017) also show that most senior positions continue to be occupied by men that, where women are appointed to boards of directors, this is normally in a non-executive capacity. These findings imply that some gender-based inequality may be present.

Female directors seem to suffer from pay inequality in two ways. Not only are their base salaries lower than those of their male colleagues but also their variable pay (bonuses in particular). Females are rewarded significantly lower bonuses when the company is doing well as there is a positive relationship between company performance and bonuses for male executive and not for female executives (Kulich et al, 2010). Many companies use subjective criteria for at least some of their bonus payments. Boards favouring their top executives can use the discretion provided by their plans to ensure that executive directors

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<sup>18</sup> The best illustration of this is caring for children.

are paid high bonus amounts even if their performance is substandard (Bebchuk and Fried, 2005).

**Research Question 1: Is base remuneration of male executive directors significantly higher than female executive directors?**

**Research Question 2: Are bonuses of male executive directors significantly higher than female executive directors?**

Most research regarding executive directors is dominated by agency theory (Gerhart, Rynes and Fulmer, 2009). The agency theory has been concerned with the relationship between managers and stockholders. An agency relationship is defined as one in which a principal(s) engages another person (the agent) to perform some service on their behalf, and involves delegating some decision-making authority to the agent (Hill and Jones, 1992). The 'agency cost' to the principal (shareholders) are those costs to ensure that the agency (group of executive directors) delivers the desired corporate outcomes that the principal sets out. This theory implies that if female directors are not perceived by stakeholders to be agents that are likely to deliver desired corporate outcomes, they are less likely to receive higher compensation than male directors (Kulich et al, 2010).

Agency theory does not provide sufficient guidance on the existence of gender pay gap between executive directors (Bugeja, Matolcsy and Spiropoulos, 2012). In particular, for agency theory to hold, female directors would need to receive lower compensation than their male counterparts because of a higher agency cost (ibid). This is not consistent with the prior academic and technical research. As explained above, women enjoy an increasing access to tertiary education and are often better trained/educated than their male counterparts (PwC, 2016). This implies that women are at least as competent as men and should, therefore, receive the same level of pay. In addition, while women may have domestic responsibilities which male employees are exempt from, the professional literature shows that this seldom affects their performance at work (PwC, 2016; 2017). Finally, the research suggests that the inclusion of females on boards of directors can improve corporate transparency and enhance the quality of reporting (Rao and Tilt, 2016). This should lower agency cost and result in higher pay for diverse boards. As a result, the existence of gender pay gap is more likely the result of different cultural factors that differ between nations, which could explain how a society operates (see Hofstede, 1983).

Hofstede (1983, p. 23) defines culture as 'the collective programming of the mind which distinguishes the members of one human group from another'. Hofstede (1984) identified five elements or dimensions of culture. A dimension is an aspect of a culture that can be measured relative to other cultures (Hofstede, 1993). According to Hofstede different cultures are likely to exhibit differences according to one or more of the dimensions explained below (De Mooij and Hofstede, 2010; Hofstede, 1993; Hofstede, 1983; Hofstede, 1985; Hofstede, 1983):

- 1. Power Distance (PDI):** This dimension describes the degree of equality, or, inequality between people in the country's society. It expresses the attitude of the culture towards the inequalities amongst us. Power distance is defined as the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally.

2. **Individualism (IDV):** This measures the degree to which a society reinforces individual or collective achievement and interpersonal relationships. The fundamental issue addressed by this dimension is the degree of interdependence a society maintains among its members. This dimension refers to the extent to which people are expected to stand up for themselves and choose their own affiliations. It has to do with whether people's self-image is defined in terms of "I" or "We". Individualism is contrasted with collectivism.
3. **Masculinity (MAS):** This dimension refers to the distribution of roles between the genders which is another fundamental issue for any society. This dimension reveals that women's values differ less among societies than men's values. Masculinity pertains to societies in which social gender roles are clearly distinct, i.e., men are supposed to be assertive, tough, and focused on material success whereas women are supposed to be more modest, tender and concerned with the quality of life (Khelif, Hussainey, Achek, 2016).
4. **Uncertainty Avoidance (UAI):** This dimension reflects the extent to which members of a society attempt to cope with anxiety by minimizing uncertainty. Different cultures have learnt to deal with the anxiety of uncertainty in different ways. The extent to which the members of a culture feel threatened by unknown situations and have created beliefs, and countries that try to avoid these is reflected in the UAI score.
5. **Long-term Orientation (LTO):** The long term orientation dimension describes a society's time horizon, or the importance attached to the future versus the past and present. This dimension measures the degree to which a society embraces, or does not embrace, long term devotion to traditional, forward thinking values (Khelif et al, 2015).

Hofstede's model has been applied in a number of different contexts, including corporate governance. A recent meta study by Khelif et al. (2015) provides a good overview of the corporate governance research making use of Hofstede's theory of cultural differences. In general, researchers find that there is a positive association between profitability, ESG disclosures and commitment to good corporate governance in society's characterised by low levels of individualism, high femininity and high long-term orientation. While there are some limitations associated with using Hofstede's model in a corporate reporting and governance context (Maroun, 2015), the model demonstrates that culture is more likely than not an important consideration for the development of corporate governance (Orlitzky, Schmidt and Rynes, 2003; Guidry and Patten, 2012; Fifka, 2013; Khan and Gray, 2016). This should be the case with remuneration practices.

A culture characterised by a high level of masculinity should place more emphasis on economic growth and less value on the relevance of social equality (Khelif et al., 2015). It should also value the quantitative analytical approach typically followed by men including their natural aggression, proactive stance and emphasis on material success, (Hofstede, 1984). As a result, masculine societies should see the contribution provided by male directors are superior to those of their female counterparts. This should be reflected in higher levels of base pay and bonuses for men. This is especially true when a cultural grouping has

a high level of power distance which allows for differentiation between members of society and does not see pay differentials as a moral or social challenge.

### Gender-based inequality in executive pay of South African directors

Hofstede’s model provides scales from 0 to 100 for each 76 countries for each dimension, and each country has a position on each scale or index, relative to other countries (Hofstede, 2017). For the purpose of this study, the only dimensions that will relate to the study are Power distance (PDI) and masculinity (MAS) dimension.

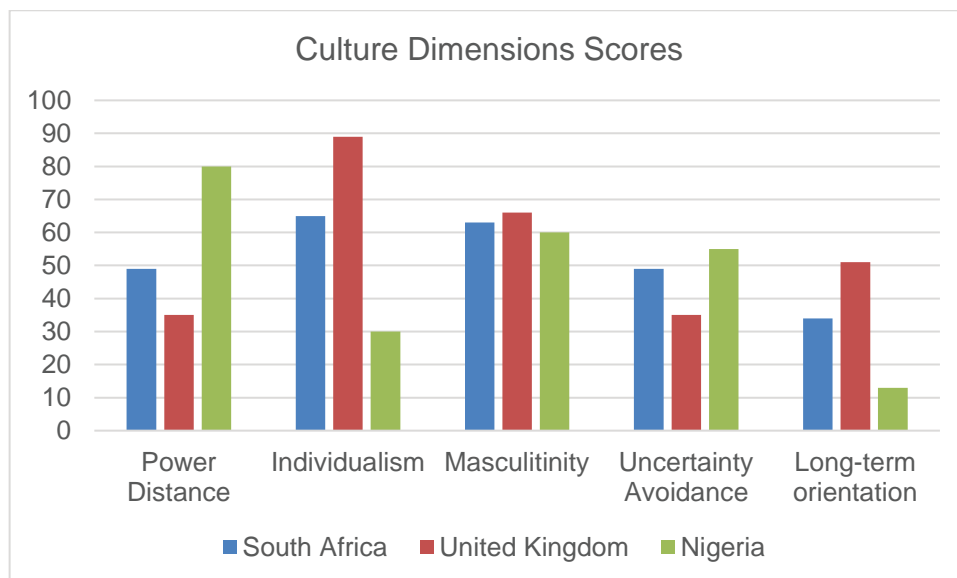
Table 1 lists the scores on all five dimensions for South Africa (SA) and two other countries. The countries chosen for this study are Nigeria and United Kingdom (UK). These countries represent an African country (Nigeria), and a developed country (UK) as a comparison to SA.

**Table 1: Culture Dimensions Scores for three countries**

|                       | South Africa | United Kingdom | Nigeria |
|-----------------------|--------------|----------------|---------|
| Power Distance        | 49           | 35             | 80      |
| Individualism         | 65           | 89             | 30      |
| Masculinity           | 63           | 66             | 60      |
| Uncertainty Avoidance | 49           | 35             | 55      |
| Long-term orientation | 34           | 51             | 13      |

(Hofstede Centre, 2017)

Table 1 can be illustrated as follows in Figure 1



**Figure 1 - Culture dimensions scores**

#### 1. Power Distance (PDI)



South Africa scores 49 on this dimension, which means that people to a larger extent accept a hierarchical order in which everyone has a place (Hofstede Centre, 2017). This high score indicates that South Africa has distributed power unequally amongst the society, and inequalities of power and wealth have been allowed to grow within society (De Mooij and Hofstede, 2010; Hofstede, 1983). Compared to Nigeria, where the power distance is very high (80), indicating that the society is more than likely to a system that does not allow significant upward mobility of its citizen (De Mooij and Hofstede, 2010). United Kingdom where it is low (35), indicating that the societies equality and opportunity for everyone is stressed. The high power index could explain the reason that fewer women than men become executive directors due to the high degree of inequality in South Africa.

Prior research has shown, women's competence is questioned more than men's and that is based on gender stereotyping (Beeson and Valerio, 2012). Females are subject to inequality if the owners of companies have a taste for discrimination against female executives, then the female directors will be paid less than men with similar qualifications working in similar companies (Elkinawy and Slater, 2011). Heilman, Wallen, Fuchs and Tamkings (2004), found that women who entered and succeeded in traditionally male dominated positions, suffered inequality in the form of being less liked and personally derogated more often than their male counterparts. Despite similar education and work background, there was a difference in male and female's salary increases (Alkadry and Tower, 2006).

The composition of executive pay is notable, due to either short or long term incentives that can total as much as 67% of an executive directors' remuneration (Kulich et al, 2010). If female directors are not perceived by stakeholders to be agents that are likely to deliver desired corporate outcomes, they are less likely to receive performance-sensitive compensation (Kulich et al, 2010). Female directors seem to suffer from pay inequality in two ways. Not only are their base salaries lower than those of their male counterparts but also their variable pay (bonuses in particular) (Kulich et al, 2010). Some companies may not offer men and women equal opportunities to gain contingent pay, and this is apparent from the treatment in the performance evaluations used to determine contingent pay (Chauvin and Ash, 1994). Females are rewarded significantly lower bonuses when the company is doing well as there is a positive relationship between company performance and bonuses for male executive and not for female executives (Kulich et al, 2010). Many companies use subjective criteria for at least some of their bonus payments. Boards favouring their top executives can use the discretion provided by their plans to ensure that executive directors are paid high bonus amounts even if their performance is substandard (Bebchuk and Fried, 2005).

Albanesi and Olivetti (2006) states that women in top executive positions tend to receive a lower share of their compensation in the form of incentive pay and a lower proportion of total earnings in the form of delayed compensation.

### **Masculinity (MAS)**

South Africa scores 63 in this dimension, which means that this society is highly masculine and experiences a high degree of gender differentiation (Hofstede Centre, 2017). A high score on this dimension indicates that the society will be driven by competition, achievement and success (Khlif et al., 2015). Males dominate a significant portion of the society and power structure, which leads to females being controlled by males (De Mooij and Hofstede,

2010). As all three countries are in the 60% range, it can be inferred that in all 3 countries, society tends to be dominated by the typical male patriarchy.

The distribution of roles between the genders is a fundamental issue in South Africa, as the Hofstede model portrays this society as being masculine (Hofstede Centre, 2017). Leadership is typically associated with masculine traits such as competence and the ability to influence. Females may be perceived to lack these traits and therefore have less promotion opportunities than males in a labour market segment that is for lucrative compensation for top positions (Kulich et al., 2010).

The term “glass ceiling” provides an explanation about the reason why female executives are differentially treated from males with respect to wages and promotions (Gayle, Golan and Miller, 2009). The term “glass ceiling” refers to an invisible barrier that prevents females from climbing the corporate ladder, and the cumulative disadvantage of blocked opportunities causes women’s under-representation at higher positions, i.e. executive directors (Kulich et al, 2010 and Acker, 2009). Glass ceiling is one of the most compelling metaphors recently used for analysing inequality between men and women in the workplace, and plays a crucial role in explaining the reason keeping females from reaching the top corporate positions (Kee, 2006).

According to Hull and Umansky (1997), women are at a disadvantage because of widespread policies and practices in the organizational power and control structure which favour male dominance. Therefore, female representation in the highest executive position remains very low (Forbes and Piercy, 1983). Females are treated differently with regards to promotion as males have a higher promotion rates than females (Gayle, Golan and Miller, 2009; Joshi, Makepeace and Dolton, 2007). The distribution of opportunities in a labour market is less for females than males (Gayle, Golan and Miller, 2009). The mobility into elite positions of executive positions occurs at a higher rate for males than for females (Alkadry and Tower, 2006). It has been noted that women and men in the same entry level job classification were assigned to different duties, and the men had duties that led to higher promotion opportunities than females (Acker, 2009). These duties could lead to a lack of experience, that is required for executive director’s positions, and this could be one of the primary reasons women are advancing to the top positions at a low rate (Jordan, Clark and Waldron, 2007). Beeson and Valerio (2012), explains that females are less likely to be given key responsibilities that are a critical pre-requisite to executive promotion.

Unequal opportunities and compensation for women in the executive profession could distort the career choices of women and reduce the number of women entering the profession of being executive directors (Elkinawy and Slater, 2011). Therefore, companies lacking a commitment to develop women executive directors are reducing the company’s pipeline of future talent (Beeson and Valerio, 2012).

Female directors are usually outsiders and therefore more likely to be objective and independent. Associated with increasing outside independence, there will be diminishing powers of inside directors (i.e. males). Even though this is not a direct discrimination of females, but more bias against independence and outsiders, this leads to less females occupying executive directorship position (Van der Walt and Ingley, 2003). Although females are underrepresented on executive positions, women are managing to break the gender

barrier at some companies that were formally known to have an all male boards of directors (Dunn, 2012). The distribution of roles in societies between genders, could explain the pay gap with executive directors.

Allen and Sanders (2002) state that economists often turn to labour supply and demand factors to explain the difference in pay between male and female executives. Executive director positions commonly distributed to females, are usually less well paid than typical male jobs, for example minerals industry (Allen and Sanders, 2002). Females are disproportionately represented in lower paying industry's' (Chauvin and Ash, 1994; McKinsey & Company, 2016). The shifting change of demand in labour has moved demand from manufacturing sector towards the service sector (Harkness, 1996). This shift in demand has created a strong concentration of women in 'low-wage' industries, and causing pay difference in executive pay for male and females (Allen and Sanders, 2002).

The PWC (2017) report on executive directors' gender board representation shows the growth in the amount of women on board of directors has not increased as fast as was expected in their previous reports and have only grown with 1.3% since 2015. According to PWC (2017), the biggest problem is that there is not a sufficient pool of candidates to choose from when appointing women, leading to countries enacting laws and regulations to deepen the pool of suitable candidates.

## **METHODOLOGY**

This study uses a quantitative method. The research seeks to examine if there is a statistically significant difference between the remuneration and performance sensitive incentives of a sample of male and female executives serving on the boards of companies listed on the JSE. The study is a preliminary one and does not, for example, seek to examine the complex socio-economic factors, which may explain why a remuneration gap between male and female directors exists. No effort is made to illuminate the social implications of the remuneration gap phenomenon or its effect on the individual director. Rather, the study offers an objective assessment, based on archival data, on whether or not a remuneration gap exists in a South African context.

## **POPULATION AND SAMPLE**

The population is the directors of all companies listed on JSE's main board. This study collects data (the remuneration of executive directors) from the top 25 listed companies in the JSE. The top 25 were selected because larger companies are more likely to have more diverse boards (IOD, 2009). These companies also have the resources and public profile to attract talented directors and to remunerate them accordingly. Larger companies are also more likely to have well developed corporate governance systems including, for example, a remuneration committee and ethics committee. This means that any differential between the remuneration of male and female directors is not the result of an oversight or weaknesses in the organisations' governance.

The sample examined is taken from Satrix INDI Fact sheet for the years ending December 2009, 2010 and 2011. These years are purposefully selected as they provide insights into remuneration differences between male and female executives before the introduction and application of King III and integrated thinking business management philosophy. King III and the Integrated Reporting Framework were introduced in 2009 and 2013, respectively. A

local discussion paper on integrated reporting was issued in 2011. As such, selecting periods before 2011 allows this research to concentrate on the pre-integrated reporting phase as explained in Section 1.

The mandate of the Satrix Indi portfolio is to track as closely as possible the value of the FTSE/JSE Industrial 25 index, according to market capitalisation. The initial data consisted of 25 companies for the years 2009-2011. After eliminating companies which were not consecutively on the portfolio, the sample was reduced to 19 companies. The sample was further reduced to 6 companies after eliminating firms that had no female directors for the period. **Table 2** summaries the selection process.

**Table 2: Summary of sample selection**

|  |          |
|--|----------|
| Number of companies listed on the Satrix Indi 25 as at 31 December               | 25       |
| <i>Less:</i>   |          |
| Number of companies that are not consistently in top 25 for the period 2009–2011 | (6)      |
| Number of companies with no female directors                                     | (13)     |
| <b>Final sample</b>  | <b>6</b> |

### Data analysis

The data was analysed using a Mann-Whittney test. The Mann Whittney test assesses whether or not there is a statistically significant difference between the salaries and bonuses of male and female executive directors. This analysis is appropriate whenever one wants to analyse the difference between the medians of two data sets.

The Mann-Whitney test was appropriate for this study as this study will determine whether between the two groups, gender and remuneration, are statistically different from each other. This test is used rather than the parametric equivalent as it is more suitable for small sample sizes where data are not necessarily distributed normally (Creswell, 2009). This was confirmed by a test for data skewness (untabulated). In addition, the data consists of two independent samples and is nominal which precluded the use of inferential analysis such as a regression analysis (Leedy and Ormrod, 2001). It should also be pointed out that this study is a preliminary one. The aim is to evaluate whether or not there are observed differences in the remuneration between male and female directors. Evaluating a causal relationship between gender and remuneration, including the relevance of any additional variables, is deferred for future research. Finally, in the interest of brevity, the research considers each research question separately. Evaluating correlations between base pay and any bonuses while controlling for gender was not appropriate as this is a preliminary study with a small sample size.

The test for statistical significance will be done at the 5% level, so that conclusions drawn are factual and not emotive, in line with comparable accounting and corporate governance research (Soni, Maroun and Padia,2015; Hill & Maroun, 2015).

## RESULTS

### The executive directors' salaries per gender.

**Table 3** illustrates that there was a significant difference at the 5% level between the salaries of male and female executive directors. The salaries of the male directors are statistically significantly higher ( $p = 0.0169 \leq 0.05$ ) than the female salaries of the female directors.

**Table 3: Executive directors' salaries per gender**

|   |            |                 |                 |
|---|------------|-----------------|-----------------|
| <b>Var 1 = is the data for the female directors</b>                           |            |                 |                 |
| <b>Var 1 = 2 is the data for the male directors</b>                           |            |                 |                 |
| The output of this calculation is as follows:<br>ranksum var2, by(var1) order |            |                 |                 |
| Mann-Whitney Test   |            |                 |                 |
| <b>Variance</b>   | <b>OBS</b> | <b>Rank Sum</b> | <b>Expected</b> |
| Var 1   | 15         | 433             | 637.5           |
| Var 2   | 69         | 3137            | 2932.5          |
| Combined  | 84         | 3570            | 3570            |
| unadjusted variance   |            |                 | 7331.25         |
| adjusted for ties   |            |                 | -0.15           |
| adjusted variance   |            |                 | 7331.10         |
| Ho: var2 (var1==1) = var2 (var1==2)   |            |                 |                 |
| z = -2.388  |            |                 |                 |
| Prob> z  = 0.0169   |            |                 |                 |
| P[var2(var1==1) > var2(var1==2)] = 0.302                                      |            |                 |                 |

**The executive directors' and bonuses**

**Table 4** illustrates that there was no significant difference ( $p = 0.0169$ ) at the 5% level between the bonuses paid to male and female executive directors.

**Table 4**

| <b>Var 1 = is the data for the female directors</b>                            |            |                 |                 |
|--|------------|-----------------|-----------------|
| <b>Var 1 = 2 is the data for the male directors</b>                            |            |                 |                 |
| The output of this calculation is as follows:<br>ranksum var2, by(var1) porder |            |                 |                 |
| Two-sample Wilcoxon rank-sum (Mann-Whitney) test                               |            |                 |                 |
| <b>var1</b>  | <b>obs</b> | <b>rank sum</b> | <b>expected</b> |
| 1  | 10         | 225.5           | 270             |
| 2  | 43         | 1205.5          | 1161            |
| Combined   | 53         | 1431            | 1431            |
| unadjusted variance  |            |                 | 1935            |
| adjusted for ties  |            |                 | -0.55           |
| adjusted variance  |            |                 | 1934.45         |
| Ho: var2 (var1==1) = var2 (var1==2)  |            |                 |                 |
| z = -1012  |            |                 |                 |
| Prob> z  = 0.3116  |            |                 |                 |
| P[var2(var1==1) > var2(var1==2)] = 0.397                                       |            |                 |                 |

### **Analysis of data results**

The results of this study confirm that there is a remuneration gap between male and female executive directors in South Africa. Female directors in South Africa, interestingly, seem to endure pay inequality only with their base salary and not their variable pay (bonuses).

The data results illustrate there is not enough female executive directors representing the large companies listed on the JSE. The sample was decreased by 13 companies (46%) due to no female executive directors present on the board for 3 consecutive years. The masculinity dimension of the Hofstede theory (2010) for South Africa shows that the distribution of roles between genders is a fundamental issue. Furthermore, the results illustrate that there is a significant pay gap of salaries between male and female executive directors in South Africa. This result is consistent with the power index dimension of the Hofstede theory (2010), which shows that South Africa is a society that has a high degree of inequality between people in the society. Female executive directors earn a significantly lower salary than their male counterparts.

## CONCLUSION

This study examined whether or not there is significant pay gap between male and female executive directors in South Africa. This study is important because South Africa has transformed to acknowledge female contribution to the society but there is still under-representation of female executive directors. The high concentration of female executive directors in low-paying industries is mainly due to unequal distribution of roles between genders.

This study indicates that the gender pay gap in executive directors does exist. Although most literature would indicate that female executive directors not only fall within a lower base salary bracket compared to their male counterparts, but also earn less in bonuses. There is, however, a difference in terms of base pay. Hofstede theory was used to substantiate the data results. The two dimensions used in this study to explain executive directors' gender pay gap are Power index and Masculinity. This study concludes that gender pay gap is linked to how each society treats females, including females in top-level positions at large companies.

These findings have a number of important implications. Firstly, the results suggest that even well after the establishment of democracy in 1994, gender-based differences are noted in remuneration policies of large listed companies. In addition, despite the fact that South Africa has taken a leading role in promoting corporate governance (which includes fair business practises) (Solomon, 2010; Maroun et al, 2015), it is possible that a practise of gender based injustice in terms of remuneration practice remains relevant. Secondly, the results demonstrate the continuing relevance of Hofstede's cultural theories for explaining observed practises in a corporate context. With South Africa characterised as a masculine society, it comes as no surprise that male and female directors are remunerated differently.

Finally, the results suggest that companies favour the naturally aggressive and assertive approach typically followed by male directors. Stakeholders – including investors – value a results driven ethos which characterises the masculine dimension of Hofstede's cultural model. As a result, male directors receive higher levels of remuneration than their female counterparts. In light of a high power-distance score, the inherent inequality is not identified as a material concern which requires immediate attention. This raises a number of additional concerns. For example: if companies value an aggressive/results-focused approach to management, is the commitment to long-term business management espoused by King III and King IV genuine? If inequality between remuneration of male and female directors can be tolerated, what other forms of discrimination are permitted? Perhaps most importantly, is the fact that institutional investors – who are supposed to be holding companies accountable for their corporate governance practices – appear to be content with existing remuneration practices which are inherently unfair.

As explained in the introduction, this is a preliminary study. Additional research will be needed to support these initial conclusions. In particular, this study has concentrated on corporate reports issued from 2009-2011. This period predates the emergence of integrated reporting frameworks for driving business practise and reporting trends. As such, the study provides an important reference point for future researchers interested in understanding the implications of integrated reporting for gender inequality. More specifically, an integrated reporting philosophy will require companies to adopt a holistic approach to business which is mindful of the need for transparency, fairness and equity. This is in contrast to the ideology

of a masculine mindset which, according to Hofstede, would promote maximisation of shareholder value and minimise the emphasis on inclusivity and fairness (Khlif *et al.*, 2015). If this is the case, examining if male and female remuneration becomes consistent after the introduction of integrated reporting, will provide important evidence on the ability of integrated reporting (and associated governance principles) to promote *real* changes in business policies and processes.

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